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ECONOMIC AND LEGAL STATUS OF FOREIGN INVESTMENTS IN SELECTED COUNTRIES OF LATIN AMERICA

(Prepared by the Secretariat)

FOREIGN INVESTMENTS IN BOLIVIA

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I. THE NATURE OF FOREIGN INVESTMENTS IN BOLIVIA

Foreign capital was first attracted by the development of railroads. In the 1920's large dollar loans of the Bolivian Government were floated in the New York market for a variety of purposes. Since then, little foreign capital has become available except funds supplied by the Export-Import Bank and some reinvestment of earnings by the foreign-owned mining industry.

A. External Long-term Debt

The first foreign loan to Bolivia was floated in London in 1872 for the Manderin-Mamori Railway; it amounted to £1.7 million and carried interest at 6 per cent. This loan went into default in 1875. It was scaled down in March 1877 to approximately £47 for each £100 bond. Another railway loan was floated in 1907 by the Bolivian Railway Company. The nominal value was £3.8 million; the bonds were issued at 80 per cent. The Bolivian Railway Company was organized by Speyer and Company and the National City Bank of New York to work a railroad concession granted by the Bolivian Government; the authorized capital stock was $9.6 million; but practically none of the stock was issued and only part of the planned railroad construction was carried out. In 1908 control of the company was acquired by a British concern. Between 1908 and 1920 five small sterling loans and one small dollar loan were raised, three of the sterling loans for financing railroad construction, one to assist in carrying out currency reform and one for establishing the Banco de la Nacion Boliviano in 1910; and the dollar loan for financing sanitation works.

Substantial borrowing abroad occurred from 1917 to 1929, practically all of it in the United States. In 1917, a 6 per cent loan of $2.4 million was floated by the Bolivian government through the Chase Bank for the construction and equipment of an electric line from La Paz to Yungas. In 1922 an 8 per cent loan of $29 million was floated through the same bank for the redemption of one of the sterling loans previously issued and the repayment of short-term debts of the Government. Through Dillon Reed and Company the Government issued in 1927 a 7 per cent bond loan of $14 million for railway construction and for building of roads, and in 1928, a 7 per cent bond issue of $23 million for the redemption of all other outstanding sterling bonds and the small dollar loan issued in 1910 and for liquidation of the floating internal debt.

Aside from dollar bonds publicly offered, the Bolivian Government also raised a loan of $2 million from the Union Allumettiere, S. A., a Belgian concern which,

/in April 1930,

in April 1930, was granted a monopoly for the production and distribution of matches in Bolivia. The loan carried interest at 7 per cent and was to run twenty years. When the Bolivian Government ran into exchange difficulties, provision was made for a reduction in the rate of interest.[1]

In December 1930, Bolivia failed to meet the sinking fund requirements of its publicly issued dollar bonds and subsequently also defaulted on the interest payments. Two developments were primarily responsible for the financial pressure on Bolivia in the early 1930's.

In the first place, the world economic depression affected the demand for tin and the price of this metal declined. Since tin exports constituted approximately three-fourths of Bolivia's exports, foreign exchange receipts decreased sharply. Government internal revenues, consisting largely of taxes from the mining industry, followed the same course. Budgetary receipts in 1931 were only 28 million bolivianos as compared with 50 million in 1929. Since debt service payments in 1929 had absorbed about 40 per cent of the Government revenue, the continuation of such payments would have left only a small sum available for other expenditure.

Secondly, the war with Paraguay (the Chaco War) which started in 1932, caused heavy new governmental expenditure most of which had to be financed through borrowings from the Central Bank. Bolivia's foreign exchange holdings were depleted, and an inflationary expansion of the note circulation combined with a worsening of business conditions resulted in a severe depreciation of the exchange value of the Bolivian currency.

The amount of Bolivia's publicly issued dollar bonds outstanding at the end of 1949 is shown in Table 1. All bonds were in default and the interest in arrears was close to $78 million.

The geographical distribution of the ownership of the $56 million worth of outstanding dollar bonds is not known. According to the United States census of American-owned assets abroad, only $29.8 million of the bonds were held in the United States on 31 May 1943.[2] Possibly the census was incomplete, or a large

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1/ Foreign Bondholders Protective Council, Inc., Report 1946 Through 1949, (New York 1950), p. 34.

2/ United States Treasury Department, Census of American-Owned Assets in Foreign Countries (Washington, D. C., 1947), page 84. The market value of these bonds at that time was $4.6 million.

amount of the outstanding dollar bonds may have been acquired by Bolivians or were held in third countries. The effect on the balance of payments of the resumption of debt service payments is likely to depend on the extent to which outstanding bonds are Bolivian-owned.

Sustained efforts to arrive at a debt settlement plan acceptable both to the Bolivian Government and to the bondholders, as represented by the Foreign Bondholders Protective Council of New York, have recently been crowned by success. On 25 June 1948, holders of the four publicly offered dollar loans were notified that a plan negotiated between the Bolivian Government and the Council would be submitted to the Bolivian Congress. According to this plan the principal of the bonds would remain unchanged but the interest rates would be as follows:

1 per cent in 1949 and 1950,
1 1/2 per cent in 1951 and 1952,
2 per cent in 1953 and 1954,
3 per cent in 1955 and thereafter.

Arrears of interest would be settled by the issuance to the bondholders of an additional $100 bond for each $1,000 bond. The nominal value of the outstanding dollar bonds would thus be raised by $5.6 million to $61.9 million. It was not until 10 October 1950, however, that the Bolivian Congress authorized the President to arrange for debt settlement according to the plan. At the same time, it imposed higher taxes in order to meet interest and amortization payments. The plan was to operate from the beginning of 1951, but at the time of writing (May 1951), final arrangements for putting it into effect appear not to have been made.

During the six years 1951-1956 the Bolivian Government, according to the agreement, will use $1.5 million annually to pay interest and repurchase bonds in the United States market.[1/] From 1957, interest and amortization payment will amount to about $2.5 million annually.

Two credits have been obtained from the Export-Import Bank, both intended to defray the cost of road construction and extended to Corporacion Boliviana de Fomento (Bolivian Development Corp.), which is owned and managed by the Bolivian Government. The first credit, authorized on 6 March 1942, was for $18.8 million, carries interest at 4 per cent and is repayable semi-annually over ten years, beginning 30 June 1950. The second credit, authorized on 28 October 1949, was for $16 million, carries interest at 3 1/2 per cent and is

1/ In April 1951 Bolivian bonds (all issues) were quoted in the New York market at about 20 per cent of their nominal value.

/Table 1.

Table 1. Republic of Bolivia: Nominal value of Dollar Bonds Issued and Outstanding at the end of 1949

Description	Millions of U. S. dollars Amount Issued	Amount Outstanding
6% dated 1917, due 1940	2.4	1.3
8% dated 1922, due 1947	29.0	22.1
7% dated 1927, due 1958	14.0	13.3 a/
7% dated 1928, due 1969	23.0	22.7 b/
	68.4	59.4
Repatriated during default period		3.1 c/
Total outstanding		56.3

Source: Foreign Bondholders Protective Council, Inc. Report 1946 through 1949, (New York, 1950), p. 34.

a/ In addition, $636,000 of bonds repurchased but not cancelled.

b/ In addition, $310,000 of bonds repurchased but not cancelled.

c/ This amount, which is formally outstanding, will be cancelled by proposed debt settlement (see page 3).

repayable semi-annually over 16 1/2 years, beginning 15 June 1955.[1/] On 30 June 1950, most of the first credit had been disbursed, but nothing of the second.

The Argentine Government agreed to grant a number of credits to Bolivia as part of the five-year trade and financial agreement between the two countries of 23 October 1947.[2/] Argentina was to provide 100 million pesos to a proposed "mixed development company" and 600 million pesos for 25 years at 3 3/4 per cent for carrying out public works in Bolivia. An additional line of credit of 50 million pesos was to cover any passive trade balance with Argentina. Details of the operation of these credits are lacking, but the long-term loan of 700 million pesos appears not to have been utilized.[3/]

1/ Export-Import Bank, Tenth Semi-Annual Report of Congress for the Period January to June 1950 (Washington, D. C. 1950), pages 26-27.

2/ Moody's Manual, Government, 1950, p. 1681. An earlier agreement providing for Argentine credits was concluded in 1940.

3/ See "Foreign Investments in Argentina", E/CN.12/166/Add.1.

Two American banks recently have granted credits to Bolivia against gold collateral in the United States. In 1948 the Bankers Trust Company lent the Bolivian Central Bank $5 million for five years to finance construction of an oil pipe line. The Manufacturers Trust Company granted a loan against gold collateral of $4.3 million in 1949.

Bolivia's foreign public debts outstanding on 30 June 1950 was as follows:[1/]

	Millions of U. S. dollars
Publicly-offered dollar bonds (new plan)	61.9
Other dollar bonds	0.7
Export-Import Bank credits[2/]	18.5
United States commercial banks' credit (against gold collateral)	7.3
	88.4

In 1942 a loan of $2.1 million was granted by the Metals Reserve Company, a subsidiary of the United States Reconstruction Finance Corporation to a Bolivian enterprise for the expansion of tungsten production. Of the original amount $180,000 has been repaid, approximately $800,000 has been written off, and the remainder is in default.[3/] This loan has not been guaranteed by the Bolivian Government and therefore is not considered part of Bolivia's public debt.

B. Business Investments

Total "foreign" capital investments in business enterprises in Bolivia at the end of 1946 are estimated at about $102 million, of which amount, however, a considerable portion represents stock held by Bolivians. The investments are shown below by currency and by the two major economic groups involved:[4/]

1/ Excluding the Argentira credits.

2/ Excluding amounts not yet disbursed - $16 million under the 1949 credit and $.3 million under the 1942 credit.

3/ United States Department of Commerce, Clearing Office for Foreign Transactions, Foreign Transactions of the U. S. Government, September 1950, pp. A-53, A-59.

4/ For similar figures relating to each of the years 1937-1940, according to the statistics of the Permanent Fiscal Commission of Bolivia, see United Nations, Balances of Payments, 1939-1945 (Geneva 1948), p. 31.

Table 2: Foreign Business Investments in Bolivia at the End of 1946

	In millions of currencies indicated			Equivalent in millions of U. S. dollars a/		
	Utilities, manufacturing, commerce	Mining b/	Total	Utilities, manufacturing, commerce	Mining b/	Total
£ sterling	10.2	9.2	19.4	41.2	37.0	78.2
U.S. dollars	2.0	9.0	11.0	2.0	9.0	11.0
Canadian dollars	6.6	-	6.6	6.6	-	6.6
Swiss francs	-	28.5	28.5	-	6.6	6.6
Total				49.8	52.6	102.4

Source: United States Department of Commerce, International Reference Service, Living and Office-Operating Costs in Bolivia, April 1948, p. 2.

a/ Converted at the rates of exchange at the end of 1946.

b/ A large portion of the investments in mining is in fact held by Bolivians (see text).

Just over half of the total investments reported as foreign are in mining, notably tin mining. Three large tin mining concerns account for three-fourths of the Bolivian tin ore output; they are incorporated in foreign countries and their capital is expressed in foreign currency. One of these concerns, the Patino Mines and Enterprises, Inc., which accounts for 40-45 per cent of the Bolivian tin ore output, is registered in the United States and its capital is expressed in United States dollars. The corporations of the Hochschild concern (Compania Minera de Oruro and M. Hochschild SAMI), accounting for about 25 per cent of the output, are incorporated in Chile and Argentina; their capital, however, is expressed in pounds sterling. La Compagnie Aramayo de Mines en Bolivia representing about 7 per cent of the output, is incorporated in Geneva, Switzerland, and its capital is in terms of Swiss francs. Thus, the enterprise concerned are considered nominally foreign-owned and are treated as such under the exchange control laws.

Little statistical information is available as to the nationality or domicile of the owners of the tin mining shares. Substantial amounts of shares undoubtedly are held in the United States and the United Kingdom. However, the majority of the shares in each of the three large tin mining concerns is still owned by the Bolivian families which originally developed the mines and retain control of the

/companies.

companies. Thus, in spite of the fact that the companies are incorporated abroad and the investments expressed in currencies other than the boliviano, less than half of the investments they represent are truly foreign-owned. It should be kept in mind, however, that some members of these Bolivian families reside permanently abroad. The exact distribution of the stock by nationality and residence of stockholders in the three enterprises is not known. Substantial amounts of the shares in the Patino concern are owned in the United States.

"Medium-sized" mines account for 15 per cent of the output of tin ore; they have been developed largely, but not wholly, by foreign (British and American) capital. To this group belong the American Smelting and Refining Company and W. R. Grace and Company. The "small" mines account for the remaining 10 per cent of the output; they are owned and operated primarily by Bolivians.

British Investments

No official statistics with respect to British-owned investments in Bolivia are available. British capital has been invested in mining as well as in other activities, particularly railway ventures. At the end of 1943 the capital stock quoted on the London Stock Exchange of companies operating in Bolivia had a nominal value of about £4.4 million.1/ The rate of return in that year was close to 22 per cent, reflecting high profits of the tin mining industry. However, 16 per cent of the shares outstanding, mainly in railways, earned no return.

United States Investments

American capital did not enter into Bolivian ventures until the first World War, when the demand for tin rose far above normal requirements. Various American corporations such as W. R. Grace and Company and National Lead Company acquired interests in Bolivian tin mines; these American interests in the 1920's accounted for about 8 per cent of the Bolivian output of tin ore. A number of these ventures did not succeed and were abandoned in subsequent years.2/ American investments were important in the development of Bolivia's petroleum resources. A subsidiary of the Standard Oil Company of New Jersey, upon obtaining a concession in 1922, made investments which by 1937 had reached a book value of

1/ The South American Journal, 22 January 1944, p. 37.

2/ For a discussion of some of these investments, see Cleona Lewis, op. cit., pp. 254-255. This source estimates American capital in Bolivian tin mining in 1935 at about $35 million, a figure much higher than the official United States estimate.

/about

about $16 million. The subsidiary was expropriated in that year by the Bolivian Government (see page 20 below), and no further United States capital has since participated directly in the development of the petroleum resources of the country.

According to the census of United States investments abroad as of 31 May 1943, direct investments in Bolivia were as follows:

Table 3: United States Direct Investments in Bolivia on 31 May 1943

	Millions of U. S. dollars
Manufacturing	0.5
Mining and smelting	10.4
Trade	2.0
Miscellaneous, including non-profit organizations	0.8
	13.7

Source: United States Treasury Department, Census of American-owned Assets in Foreign Countries, Washington, D. C., 1947, p. 70

These investments represent the holdings - practically all of them in branches - of fourteen corporations, among which may be mentioned Patino Mines and Enterprises, Inc., W. R. Grace and Company and American Smelting and Refining Co. The holdings are recorded as "controlling" interests; but it will be recalled that for statistical purposes a "controlled" enterprise is defined as one in which a United States enterprise holds stock. The investment in the Bolivian branches of the Patino concern is included, though Bolivian nationals have a controlling interest in the parent company.[1/]

Other Investments

Canadian investments have contributed to the development of the electric power industry. The Bolivian Power Company, a subsidiary of the Canadian-owned International Power Company, Ltd., according to reports some years ago provided approximately nine-tenths of the generation of electric energy in Bolivia.[2/] This company operates the electric light, power, streetcar and telephone systems in

1/ In the United States census of foreign-owned assets in the United States as of 14 June 1941 it is reported that residents of Bolivia owned a controlling interest in United States enterprises amounting to $14.2 million. The bulk of this investment presumably represents the ownership of a majority of shares of Patino Mines and Enterprises, Inc.

2/ U. S. Tariff Commission, Mining and Manufacturing Industries in Bolivia, (Washington, D. C., 1943), pp. 33-34.

/La Paz,

La Paz, the light and power system in the town of Viacha, and the hydro-electric development and telephone service of Oruro.

Although the statistics on business investments show that substantial mining investments are expressed in Swiss francs, there is no evidence that Swiss residents own a large share of Bolivian mining enterprises. As previously mentioned the Aramayo concern is incorporated in Switizerland but its stock is held largely by the Aramayo family in and outside Bolivia.

II. ECONOMIC SIGNIFICANCE OF FOREIGN INVESTMENTS

A. Industrial Distribution

The Bolivian railroads, public utilities and petroleum industry were developed almost exclusively with the aid of foreign capital. The tin mining industry, on the other hand, while now nominally foreign-owned, was developed originally and is at present indirectly owned largely by Bolivian nationals, as was pointed out above. The expansion of the tin mining industry was financed in part by investment of undistributed profits. Little local capital accumulated from domestic savings has been available for mining or industrial development.

Minerals account for all but a fraction of Bolivia's exports:

Table 4: Bolivia: Exports in 1948

	C.i.f. value in millions of U.S. dollars	Percentage
Mineral exports (metals or ores):		
Tin	80.2	71.1
Antimony.	6.2	5.5
Silver.	5.5	4.8
Lead.	10.1	9.0
Wolfram (Tungsten).	2.9	2.6
Copper.	3.1	2.7
Zinc.	2.8	2.5
Bismuth	.1	.1
Total mineral exports . .	110.9	98.3
Other exports	1.8	1.7
Total	112.7	100.0

Source: Banco Central de Bolivia, Annual Report, 1949, pp. 46-47. The share of minerals in exports was unusually large in 1948. In 1947 that share was only 92.4 per cent.

Tin Mining

The importance of foreign investments in tin mining is obvious from the fact that tin ore accounts for about 70 per cent of Bolivia's exports. The purchase of the goods that Bolivia must import has to be financed largely by the portion of the proceeds of tin ore exports that accrues to Bolivia.

/Mining

Mining of tin ore in Bolivia began about 1860 but did not assume importance until World War I. Normally, Bolivia has supplied 12-25 per cent of the world's tin ore production. Bolivia's tin mining is at a disadvantage as compared with the major producing areas in South-east Asia (Malaya and Indonesia), since the tin content of its ores is lower; furthermore, the transportation of the concentrates is difficult and expensive since high mountain ranges separate the mines from the ports on the Pacific Ocean.

The foreign and domestic capital (excluding reserves) invested in the large and medium-sized mines in 1947 is shown in Table 5. The amount has not changed substantially since 1940.

Table 5: Capital Invested in Tin Mining in Bolivia, 1947 1/

	Millions of U.S. dollars
Large mines:	
Patino group	20
Hochschild group	22
Aramayo group	4.7
Medium-sized mines	14
Total	60.7

Source: Banco Central de Bolivia, Annual Report, 1947.

1/ Excluding reserves.

These figures do not include the relatively small amount of capital (chiefly Bolivian) invested in the "small" mines which account for about a tenth of the tin ore output.

As was pointed out above, the bulk of the capital invested in the large mines is held by Bolivians.

Other Extractive Industries

Minerals other than tin ore constitute approximately a fourth of all exports and thus contribute substantially to the inflow of foreign exchange.

Antimony extraction which began at the beginning of this century always is large during war periods. However, practically no foreign capital is invested in the Bolivian production of antimony which is derived chiefly from

/individual

individual operators. These operators sell their output to the government-owned Banco Minero. Tungsten, on the other hand, which is also important in war time, is mined by large tin mining companies; it is found in separate deposits in the tin belt. A Bolivian enterprise obtained financial assistance from the United States Government during the war to stimulate output of this mineral; however, it was not a successful venture. Lead, silver and zinc, which are also exported in sizeable quantities, are mined by foreign and domestic interests; lead is usually obtained in conjunction with other minerals. Prior to 1900 silver was for centuries Bolivia's principal export product; in fact, Bolivia was once rated as one of the world's richest sources of silver. However, when the price of silver fell drastically in the nineteenth century, Bolivian miners turned to the production of other metals.

Bolivia is endowed with large petroleum resources. The petroleum belt runs in the southern part of the country from the Peruvian to the Argentine border. The development of these resources has so far been very limited owing partly to the inaccessibility of the area. All petroleum deposits in the country were made the property of the Government by decrees in 1916 and 1920. Concessions for their exploitation could be obtained provided royalties were paid to the Government. The Standard Oil Company of New Jersey acquired a concession in 1922 and subsequently through the Standard Oil Company of Bolivia was responsible for a large portion of Bolivia's petroleum output. After the expropriation of that Company's assets in 1937,[1/] this concession was cancelled, and the development of petroleum resources has been in the hands of the national petroleum monopoly, the Yacimientos Petroliferos Fiscales Bolivianos. Efforts have been made at various times by the Bolivian Government to interest foreign capital in the development of these resources. No equity capital has become available but, as was pointed out above, the Bolivian Central Bank has been able to raise loans with United States banks for the construction of oil pipe lines. The amount of Argentine capital actually invested is not known. Some of the extracted oil moves through an Argentine-owned pipeline to Argentina.

Transportation and Public Utilities

Since Bolivia has no sea coast and is separated from ocean ports by mountain barriers or tropical low lands, transportation of goods entering into Bolivia's foreign trade poses a difficult problem. Railroads required for the

1/ For further discussion of this expropriation, see p. 24.

/development

development of mineral resources have attracted British and American capital. In fact, all major railroads were built with the help of foreign capital. British capital was largely responsible for building two of the major railway links between the Pacific coast and the main centres of the country: the 745 miles of railroad (out of 1,400 miles in the country) connecting the Chilean port of Antofagasta with La Paz and Oruro, operated by the Bolivian Railway Company, and the railway from the port of Mollendo in Peru to Lake Titicaca and from Guaqui (on that lake) to La Paz which, together with steamers across the lake is operated by the Peruvian Corporation. Both of these concerns are British-owned. The third railroad link between the Pacific coast and Bolivia, connecting Arica and La Paz, is owned by the Bolivian Government in Bolivian territory and by the Chilean Government in its territory; foreign capital borrowed by the Bolivian Government has probably contributed substantially towards building this railroad line.

The railroads connecting Bolivia with Argentina and Brazil were built with the aid of capital supplied by these two nations. Under the terms of the treaty between Bolivia and Brazil of 25 February 1938, a railroad line is now being constructed between Corumba and Santa Cruz. This road is financed with sterling owed by Brazil to Bolivia and with funds advanced by Brazil to Bolivia at an interest rate of $3\frac{1}{2}$ per cent. The Argentine Government agreed in a treaty of 10 February 1940 to finance the construction of the railroad from Yacuiba to Santa Cruz which will connect the oil field in that vicinity with Buenos Aires.

The Bolivian Government owns and operates approximately 600 miles of railways, including those financed by Brazilian and Argentine capital; dollar funds from loans floated in New York in the 1920's were instrumental in building many of the lines in question. Without foreign capital, Bolivia's railway links with the outside world could not have been developed and Bolivia's natural wealth could not be sent to foreign markets in return for needed imports.

In the fields of electric power, telephone and street car service, foreign capital, particularly Canadian, has predominated.

The building of some major highways has also involved the use of capital from abroad. Credits granted by the Export-Import Bank to the Bolivian Development Corporation in 1942 and 1949 were intended largely for the construction of a good road between the important cities of Cochabamba and Santa Cruz. It is reported that under the 1949 credit an American engineering firm will be responsible for bringing construction of this highway to a completion.

/Commerce and

Commerce and Manufacturing

Prior to World War I trade and commerce in Bolivia was largely in the hands of German nationals, many of them residing in Bolivia. German merchants were more willing to cater to outlying areas and to the particular wishes of native Bolivians than were the merchants of other countries. Germans acquired a virtual monopoly in several branches of commerce and had made themselves almost indispensable to the economic life of the country. Although Bolivia did not declare war on Germany until 7 April 1943, the assets of German nationals were frozen on 10 December 1941 and their enterprises subjected to control. Since then the German owners of the enterprises concerned appear in most cases to have acquired Bolivian citizenship.

Little foreign capital is invested in other branches of the economy. Mention may be made, however, of participation of some American capital in the cement industry, and of the operation of branches of the Banco Popular del Peru and Banco de la Nacion Argentina. Industry and commerce are not highly developed in Bolivia. Most existing manufacturing enterprises produce light consumer goods for the local market, require little capital and employ few workers.

3. Foreign Investments and the Balance of Payments

Bolivia's exports, consisting, as was pointed out above, almost entirely of mineral products, exceed imports - in peacetime, it appears, usually by 30-60 per cent in dollar value. Imports consist largely of necessities for consumption and equipment for the mining industry. The export surplus finances the outward payments on account of dividends and profits and the less important service items among which may be mentioned Government payments, which have been comparatively heavy in recent years.

The information concerning the capital movement, particularly with respect to inflow of foreign capital, is inadequate. Aside from the publicly offered loans and the credits extended by banks, little exact information is available. The figures for the 1940's in table 6 relate primarily to the use and repayment of credits from the Export-Import Bank and the Reconstruction Finance Corporation.

Payments on account of interest and amortization on the bonded external debt in the years 1928 to 1930 have been estimated at approximately $5.8 million per annum. Such payments in 1929 - the year before the debt went into default - constituted

/more than

more than 10 per cent of Bolivia's total exports and a much larger percentage of the amount of exchange actually sold in Bolivia by the mining companies. Since Bolivia's aggregate exports (including minerals) amounted to less than $20 million in the depression year of 1931, it is evident that payment of the service on the external debt would have seriously reduced the amount of foreign exchange available for imports.

As was pointed out above, the debt settlement recently adopted calls for payments of approximately $1.5 million a year during six years from 1951 inclusive for interest and the repurchase of bonds abroad, and for about $2.5 million annually beginning with the seventh year. Total foreign exchange required for the service of debts - which also include the Import-Export Bank loans and the bank loans - are expected not to exceed $6 million in any one year. This amount does not seem excessive in view of the current level of Bolivia's exports, but will still constitute a burden on the balance of payments in coming years.

The balancing of foreign transactions obviously depends largely on the amount of foreign exchange that is made available by the tin mining industry after deduction of its own requirements. The question will be dealt with in a subsequent page.

/Table 6

Table 6: Bolivia: Balance of Payments 1947 and 1948

Inward (+) or outward (-) payments

(In millions of United States dollars)

	1947	1948
Merchandise exports, f.o.b.[a]	+72.1	+100.3
Merchandise imports, c.i.f.[b]	-62.6	-72.2
Merchandise surplus	+9.5	+28.1
Government transactions	-6.5	-7.0
Miscellaneous services	+0.4	-0.5
Yield of investments[c]	-13.9	-17.3
Total goods and services	-10.5	+3.3
Long-term capital[d]	+8.8	+1.6
Short-term capital and monetary gold	+8.1	-1.1
Balance of above items (due to errors and omissions)	+6.4	+3.8

Source: International Monetary Fund, Balance of Payments Yearbook 1948, page 77. The figures for 1948 have been revised.

a/ Computed from the recorded c.i.f. values by deducting transport and smelting costs and by adding estimated contraband exports.

b/ As recorded plus contraband.

c/ All Bolivian Government dollar bonds were in default from 1930 to December 1950.

d/ Largely utilization of Export-Import Bank loan.

/C. Yield of Business

C. Yield of Business Investments

Exact information on the yield of foreign investments in Bolivia in relation to the capital invested is not available.[1] Mining investments were very profitable during the first world war when the price of tin was high, the volume of exports large, and taxes small. The relatively high levels of output maintained during the 1920's indicate a correspondingly high level of profits which was followed by a sharp decline during the depression. By the mid-1930's, however, the price of tin had recovered substantially and, as is indicated in Table 6, profits during World War II increased considerably. Since the end of the war the Bolivian companies have called attention to the rise in costs resulting from the necessity of penetrating deeper to secure ores, and to higher wages and increased taxes. In 1947 the Patino group reported profits (after taxes) at 17 per cent of the gross revenue and compared them with corresponding profits of 30 per cent earned by the Pacific Tin Company of Malaya, despite the fact that the latter was operating at low capacity and had not fully recovered from the effects of the war. In this connexion it may be noted that the dividends declared by Patino Mines and Enterprises, Inc., since the war have been no higher, and in several years lower, than those paid during the war, despite the fact that the price of tin has risen substantially.[2]

Analysis of the balance sheets of the British-owned railway companies and the Canadian-owned power plant companies suggests that these enterprises have generally not been profitable in recent years. Neither common stock nor preferred stock dividends have been paid for many years.

1/ According to estimates of the United States Department of Commerce the ratio of earnings to "equity" of United States direct investments in mining and smelting enterprises in Latin America as a whole in recent years was as follows:

1945 .... 8.7 per cent	1947 .... 13.4 per cent
1946 .... 9.8 " "	1948 .... 18.4 " "

(See The Balance of International Payments of the United States, 1946-48, Washington: 1950, p. 94.) No comparable data for Bolivia alone are available.

2/ The average yearly price of Straits tin in New York in selected recent years was as follows:

Year	Price (cents per lb.)	Year	Price (cents per lb.)
1929	45.2	1942-1945	52.0
1931	24.5	1947	77.9
1935	50.4	1949	99.3
1938	42.3		

The average for 1942-1945 refers to the price paid for Bolivian tin by the Metals Reserve Company, a procurement agency of the United States Government, which was somewhat higher.

/III. GOVERNMENT

III. GOVERNMENT POLICY AND FOREIGN INVESTMENTS

A. Entry and Status of Foreign Capital

Foreign capital may enter the country freely; but if special guarantees with respect to the transfer of dividends and repatriation of principal are requested, capital entering the country will, under a law of 17 October 1945, have to be "registered with the Ministry of the Treasury and must be either in the form of exchange sold to the Central Bank at the official rate or in the form of machinery or materials for stipulated purposes" (see following section on exchange control).1/ The mining companies are not affected by the law of 17 October 1945, their exchange transactions being subject to special legislation, as described below.

Foreign capital in Bolivia enjoys almost complete formal equality with domestic capital. Foreign nationals residing in Bolivia have the right to work and engage in any legitimate industry.2/ However, the Constitution stipulates in Article III that all business enterprises established will be considered as "nationals" and are subject only to the laws of Bolivia. The only existing formal discrimination is a stipulation in the Constitution prohibiting foreigners and foreign enterprises from acquiring of owning property within fifty kilometers of the Bolivian border.

The Constitution provides that the Government may regulate by law commercial and industrial activities required for public need or security, and may assume general direction of such activities through assistance or direct action.3/ The Government has up to this time established only two specific monopolies, namely in petroleum and matches. With respect to the first, laws of 1921, 1936 and especially a decree law of 5 November 1937 stipulates that all petroleum lands in the country belong to the public reserve and that the exploitation of these fields and the distribution of petroleum products is assigned to the Yacimientos Petroliferos Fiscales Bolivianos, a government enterprise. With regard to the second, the manufacture and sale of matches in Bolivia was made a monopoly in 1930, when the Government awarded an exclusive contract to a Belgian firm (see page 2, above).

1/ United States Department of Commerce, International Reference Service, June 1949, Establishing a Business in Bolivia, p. 2.

2/ Ibid, p. 1.

3/ Inter-American Development Commission, The Statement of the Laws of Bolivia in Matters Affecting Business Needs and Various Aspects of Activities, p. 121.

/Mention

Mention may be made of a few other government regulations that may influence investment conditions. Tin ore derived from the "small" mines, and antimony ore must be turned over to the government-owned Banco Minero. The same principle applies to rubber and sulphate of quinine which have to be turned over to the government-owned Banco Agricola. In addition, there are some controls over the exports of wool and gold and the distribution of cotton, cotton textiles and salt. The two banks just mentioned, together with the Bolivian Development Commission (originally financed by joint United States-Bolivian capital), lead and assist private Bolivian enterprises and offer financial, technical and planning facilities.

A decree of 2 February 1937 stipulates that 85 per cent of all employees of any enterprise must be Bolivians and that at least 85 per cent of all wages paid must go to Bolivians.[1/] On the other hand, no restrictions exist with respect to the composition of the board of directors of any enterprise.

All enterprises pursuing commerical or industrial activities must be registered in the office of the Collector of Internal Revenue and authorization has to be obtained from the municipality where the enterprises will be located. Inscription in the commercial register of the departmental Chambers of Commerce or in the national register of industries is also required. The Mineral Code, which affects foreign interests, requires that mining enterprises employing more than 200 workers and located more than ten kilometers from the nearest town must provide living quarters, health service and food to the workers. This code places a substantial financial burden on the foreign-owned mining enterprises.

Private ownership of property is guaranteed by Article 17 of the Constitution, provided "it performs a social function"; expropriation for reasons of public utility is permissible if done according to law and if "a fair indemnity is paid beforehand."

The Bolivian legislature has during the last few years several times considered nationalization of the tin mines. So far, however, the only instance of expropriation is the action against the Standard Oil Company in 1937 when the property of the Standard Oil Company of Bolivia was expropriated and its concession cancelled. The legal history of this case is complicated and had assumed political significance. The action was based on alleged illegal export petroleum products by

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1/ Inter-American Development Commission, <u>ibid</u>, p. 28.

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the company. Although Standard Oil valued its Bolivian holdings at $17 million, it accepted in 1942 an indemnification of $1.5 million and 3 per cent interest for the period from March 1939 to 1942 $0.2 million in full settlement of its claim.

According to a recent official statement, the Government is considering a revision of its policy with respect to the exploitation of petroleum by foreign enterprises.[1/] It is contemplated to establish a limited area in the northwestern part of the country in respect of which the Government will consider negotiation with foreign companies for full exploitation rights. Another area would be open to foreign enterprises on the basis of leasing arrangements with the Government's oil monopoly.[2/]

In the recent session of the Bolivian Chamber of Deputies, a resolution was unanimously passed calling for a commercial treaty with the United States and inclusion therein of adequate guarantees for American capital.[3/] This appears to be related to the recent programme announced by the United States with a view to establishing bilateral treaties on the status of foreign investment.

B. Exchange Control

Foreign exchange control was introduced in Bolivia in 1932 and has been in effect ever since, except for an interval between October 1937 and June 1938. In the early 1930's pressure on the balance of payments resulted from the loss of export markets during the depression and from the war with Paraguay. In recent years, however, domestic inflationary tendencies have led to a persistent pressure on Bolivia's international payments position which has been kept in precarious balance only by restrictions on imports through import licensing, exchange control and a system of multiple rates of exchange in respect of both the purchase and the sale of foreign exchange by the authorities.

The large and middle-sized tin mining enterprises in some respects occupy a special position in the exchange control system. These enterprises are exempt

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1/ See report of a statement by Guillermo Mariaca, director of Yacimientos Petroliferos Fiscales Bolivianos, New York Times, 15 April 1951. See also United States Department of Commerce, Foreign Commerce Weekly, 22 January 1951, p. 11.

2/ The latter arrangement appears to be similar to that under which certain United States enterprises have operated in Mexico during recent years. See E/CN.12/66/Add.8.

3/ United States Department of Commerce, Foreign Commerce Weekly, 16 October 1950.

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from the general requirement to surrender all export proceeds to the exchange control authorities, being permitted to retain abroad a considerable percentage of the foreign exchange proceeds. The percentage which may be retained abroad has frequently been changed and has often been subject to dispute between the mining interests and the government. All the exchange sold by the companies to the authorities is since April 8, 1950, being transferred at the "official" rate of 60 bolivianos per dollar, which is less favourable to the companies than the "free" rate of 100 bolivianos at which other exporters usually can sell at least a portion of thier exchange proceeds.

Under a decree of 11 August 1950 the large tin mining enterprises were required to surrender to the authorities all their net earnings of foreign exchange. After lengthy negotiations, during which their exports dropped drastically, this was modified by a decree of 30 October 1950. While formally adhering to the principle of full surrender of all proceeds this decree in practice reverted to the earlier arrangement under which the tin-producing companies were permitted to retain 40 per cent of their foreign exchange proceeds. However, the use of the 40 per cent must be accounted for by the companies. Of the total proceeds 18 per cent may be used for defraying costs of smelting, storage, handling and transportation charges abroad; the remaining 22 per cent may be used for imports of machinery and equipment and of goods sold in company stores, and for paying dividends in foreign currency. It was stipulated, furthermore, that if the price of tin metal is less than 90 cents per lb., (which is well below the recent price) an additional 2 per cent of the foreign exchange proceeds, or 42 per cent in all, may be retained abroad.[1/] At the same time, the companies agreed to increase annual production by 3,000 tons to 35,000 metric tons of tin in concentrates provided the price of tin exceeds 90 cents per lb.

Subsequent decrees have established percentage exchange deliveries also for exporters of various mineral products other than tin ore (e.g., copper, lead and zinc ore) and of tin ore from the middle-sized mines, with a view to stimulating production.[2/] The exporters have to surrender a "basic quota" of the foreign

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1/ Under a previous arrangement, if the price exceeded 90 cents per lb. the exporters were permitted to retain 40 per cent of the first 90 cents and compelled to turn over 100 per cent of the excess.

2/ See Foreign Commerce Weekly, 22 January 1951, p. 10.

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exchange proceeds of their sales to the exchange control authorities at the (to them) relatively unfavourable official exchange rate of 60 bolivianos to the dollar. The remainder may be retained by the exporter and used for dividend payments, capital retirement and other expenditure in foreign currency, or it can be sold to the Central Bank at the rate of 100 bolivianos per dollar. Owing to the large discrepancy between the two rates, the profitability of the production naturally depends to a considerable degree on the basic quota, which varies for different commodities and is subject to change.

Foreign enterprises not producing minerals and in particular not engaged in exports are in a relatively unfavourable position in that they depend entirely on the exchange control authorities for any payment in foreign currency, including investment yields, and since for such payment the (to the enterprises) relatively unfavourable rate of 100 bolivianos for the dollar is applied unless the investment is "registered". Registered investments are made at the official rate of exchange and carry a guarantee of transfer of earnings at that rate up to 15 per cent per annum of the registered capital. Outward transfers of capital require approval. If permitted, transfers for "amortization" up to 30 per cent annually of registered foreign capital may be effected at the official rate. There is no evidence that any foreign capital has as yet entered Bolivia under the terms of the decree providing for registration of foreign capital. Authorized inward and outward transfers of unregistered capital are effected at the "free" rate.

It may be useful at this stage of the analysis to consider the regulation of the foreign exchange transactions of the mining industry in the light of the information supplied as to the importance of foreign investments. Tin ore, it will be recalled, represents about two-thirds of Bolivia's exports, and a considerable proportion of other minerals exported is produced by the large and medium-sized tin mining enterprises. Foreign exchange surrendered to the Central Bank by the concerns exporting minerals has to finance not only the great bulk of the normal imports of consumption and capital goods into Bolivia but also the servicing of the public debt and the yield of foreign business investments in enterprises producing for the Bolivian market. The transferred yield of foreign investments in non-exporting enterprises in Bolivia is very low, representing only a fraction of the profits transferred by the tin-mining concerns, in spite of the fact that the amount of truly foreign-owned capital in the latter is much smaller

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than that in public utilities, railways and manufacturing for the domestic market. This may be attributed to the relatively unfavourable conditions under which utility enterprises are working in countries where inflationary tendencies prevail (owing to the fact that rates charged to the public can seldom be raised in line with costs of operation) and possibly, in so far as railways are concerned, to the competition on the part of motor vehicles. But it does not seem excluded that the retention abroad of foreign exchange proceeds from exports has been large enough to depress the Bolivian economy and thus to discourage foreign investment in Bolivian ventures.

It might have been thought that the yield of investment in the large tin-mining concerns retained abroad would have been confined to dividends pertaining to the foreign-held shares and that non-distributed profits would have been ploughed back into business in Bolivia. Judging, however, from the information available, particularly the estimates of Bolivia's balance of payments published by the International Monetary Fund, the dividend transfers have been larger, and in addition, sizable amounts of undistributed profits have been retained abroad.

Thus, it appears that the foreign exchange retained by the concerns - which as pointed out above are nominally foreign-owned - includes all dividends paid. The balance of payments does not record any entry of foreign exchange on account of dividends on the Bolivian-held shares which represent over half the stock of each of the concerns in question. Information is not available as to the extent to which the absence of such a return flow of dividends is explained by the fact that some of the Bolivian share-holders reside permanently abroad.1/

The magnitude of the non-distributed profits is not exactly known but may be roughly computed as the difference between the total investment income and the dividends paid, as reported in the official balance of payments statements for Bolivia:

1/ See also footnote 1/ on page 9.

/Year

Millions of United States dollars

Year	Investment income a/ (1)	Dividends paid in foreign exchange b/ (2)	Investment income not distributed as dividends (1) - (2)
1938	5.1	1.9	3.1
1939	9.7	3.1	6.5
1940	11.7	3.3	8.3
1947	13.9	5.0	8.9
1948	17.2	4.5	12.7

a/ As reported in the balance of payments. This item was calculated by deducting from total exports the expenditure of foreign companies in foreign currency on account of imports, freight and insurance on imports, selling costs and currency sold to meet local expenses in Bolivia.

b/ See International Monetary Fund, Balance of Payments Yearbook, 1948, p. 76.

While it is possible that the figures given for the total investment income, which are admittedly based on estimates, may be too high, as will then also be those for the undistributed income, there can be little doubt that the latter income has been much in excess of the dividends. The amounts involved, which enter into the foreign exchange holdings retained by the exporters, have been transferred abroad, and there is no indication in the balance of payments estimates for the years covered by an offsetting capital inflow representing re-investment in Bolivia of the sums in question.

The transfer abroad of the profits in excess of dividends accruing to stockholders residing abroad is akin to an export of capital and the amounts involved appear large enough to affect the balance of payment. It should be observed, however, that the figures shown refer to conditions prevailing before the decree of 30 October 1950 according to which the foreign currency retained by the exporters must be accounted for as representing current expenditure, dividends and payment for imports. It appears still too early to estimate how this arrangement will affect Bolivia's exchange position.

C. Taxation

Taxes on exports in 1948 and 1949 provided from 38 to 42 per cent of all ordinary receipts of the national government. Taxes on income and profits are second in importance and, together with export taxes, provide almost one-half of

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the ordinary revenue of the national government. Third in importance are taxes on domestic consumption and production.

The export taxes are levied irrespective of the profitability of the mining industry as a whole or of individual enterprises, that is, even in times when metal prices in world markets are depressed. The export taxes accordingly at times may act as a deterrant to the working of low-grade ores and also to new investments in the mining industry.

The tax on the export of tin ore (concentrate) varies with the tin content and with the prices of tin on the New York and London markets. It is roughly equivalent to an ad valorem tax on tin at world market prices and thus takes no account of differences in cost of extracting and processing various ores or of the net profit realized. For large tin mines the export duties usually amount to about a fourth of the value of the product at the mine.

The mining industry is not only subject to export taxes, but also pays steeply progressive taxes on profits. For the purpose of such taxes all Bolivian mining enterprises are classified as large, medium or small, depending on their production. The small mines, usually locally owned, are in a preferred position. Their income is taxed at rates ranging from 8 per cent on the first 500,000 bolivianos of taxable income to 12 per cent on incomes in excess of 7 million bolivianos. Taxation of the income of large and medium mining companies is based on the rate of return on the paid-up capital of the company in question. The rate of taxation ranges from 4 per cent on profits amounting to less than 5 per cent of paid-up capital to 50 per cent on profits amounting to 150 per cent or more.

Mining enterprises are subject to several other taxes, those levied once on the original grant of a concession and annually on the concession during the time it is worked, and on the listing of real property covered by the concession.

There is no distinction between foreigners and nationals in the application of any of these taxes. According to Article 3 of a Decree Law of 2 August 1937, "every foreigner in Bolivia enjoys the same rights as are accorded to nationals and shall have no other or greater obligation than the latter in the payment of taxes or performance of public services."

An important feature of Bolivia's tax legislation, from the viewpoint of new industries, whether foreign or locally owned, is that under a law of 14 December 1942, newly established manufacturing enterprises above a minimum

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size based on agriculture and stockraising, except those producing cigars, cigarettes and alcoholic beverages, are exempt for a period of five years from all national, departmental and municipal taxes (except land taxes).

Apart from the specific levies mentioned, business enterprises in Bolivia, both foreign and domestic, are subject to a wide variety of taxes on incomes, sales and property, some of which vary according to the industry in which the enterprise is engaged. Proposals for a revision of the Bolivian tax structure are contained in the forthcoming "Report of the United Nations Mission of Technical Assistance to Bolivia."

The existence of multiple exchange rates has accounted for an important amount of governmental revenue. In the years 1937-1939, for example, exchange profits resulting from official purchases of exchange at rates well below those at which exchange was sold to importers constituted between 30 and 40 per cent of total revenues of the national government. The amounts declined thereafter, but the budget for the fiscal year 1950 includes some 450 million bolivianos of exchange profits or one-sixth of total receipts.1/

D. Commercial Policy

Imports are subject to direct restrictions and tariffs. The inflation and currency depreciations of recent years have left many of the existing tariff duties obsolete and increased the importance of quantitative restrictions. Import duties contributed about 10 per cent to the national government's ordinary receipts in 1949. Special advantages as to tariffs and import licensing are extended to new industries engaged in processing domestic raw materials. All imports are subject to licensing. Exchange quotas are established for different types of goods, according to their degree of "essentiality." Exchange for the less essential imports is sold at rates less favourable to the importers.

Since the onset of the world economic depression of the 1930's, the Bolivian Government has taken an active part in international arrangements relating to the control of tin production. The price of tin declined drastically in 1929 with the reduction in the demand for this metal. When private attempts to control the output of tin failed, the governments of most tin-producing countries formed the International Tin Committee in 1931 and undertook to enforce quotas for the production of tin.

1/ This estimate was made before the revision of the exchange rate structure in April 1950. Information is not available on the effect of the new structure on governmental revenue.

/The activities

The activities of the International Tin Committee facilitated the rise in the price of tin during the 1930's and thus helped to sustain the foreign exchange position of Bolivia and the financial position of the Government. In the period of scarcity during the second world war, international tin allocations were effected by the Combined Tin Committee, an agency of the United States and United Kingdom Governments. The International Tin Committee's agreement formally lapsed in 1946, but the work of the Committee was informally continued by the International Tin Study Group, though without the establishment of a direct control by quotas on the production of tin ore. In 1950 the Tin Study Group requested the United Nations to convene in accordance with certain provisions of the draft Havana Charter for an International Trade Organization, a United Nations Conference to discuss a commodity control agreement on tin. Accordingly, a Tin Conference under the auspices of the United Nations met in Geneva in October 1950 and discussed in detail the methods which might be used to bring stability to international trade in tin.[1/] This conference had before it a draft international agreement for the control of exports of tin ore and for the creation of a buffer stock. It was unable to agree on this draft, however, because of conflicting views of consuming and producing countries, particularly in the light of the rapidly changing market position of tin.

1/ For details see United Nations, Review of International Commodity Problems, 1950, New York, January 1951.